CHAPTER 13 : Monopoly and monopsony

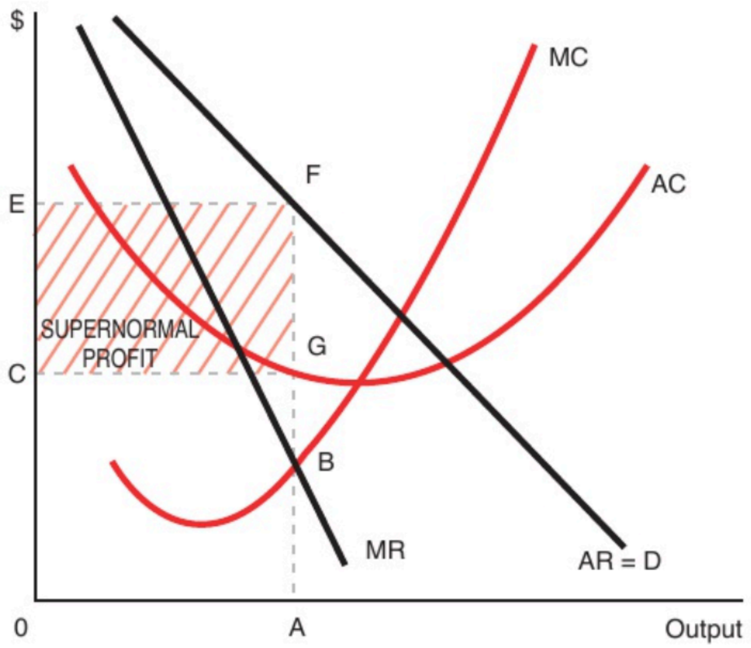
Key terms

1. Monopolist : firm which controls all the output in a market
2. Monopoly or pure monopoly : market structure where where one firm supplies all output in the market without facing competition because of high barriers to entry to the market
3. Monopoly power :exists when firms are able to control the price they charge for their product in a market
4. Monopsony : exists when there is only one buyers in the market
5. Natural monopoly : a monopoly that arises due to continuing falling economies of scale
6. Price discriminate : charing a different price for the same goods and service in different markets

1. Characteristics of monopoly

- Profit maximisation
- Sole seller in the market
- Higher barrier to entry
- Price maker
- Price discrimination

2. Diagram monopoly in short run and long run

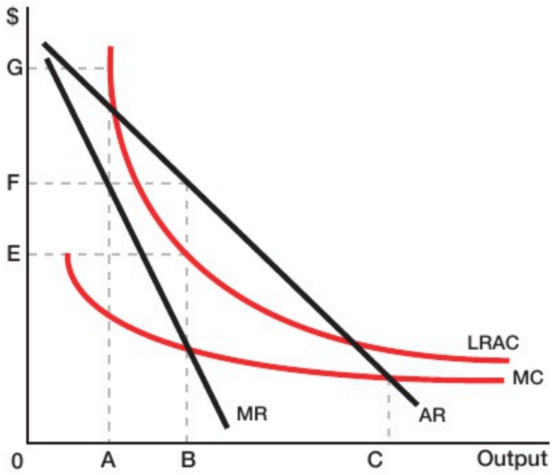


- A monopolist maximise profit where MR=MC
- Therefore, it sets price at E and quantity at A.
- Firm makes supernormal profit = (E-C)xA

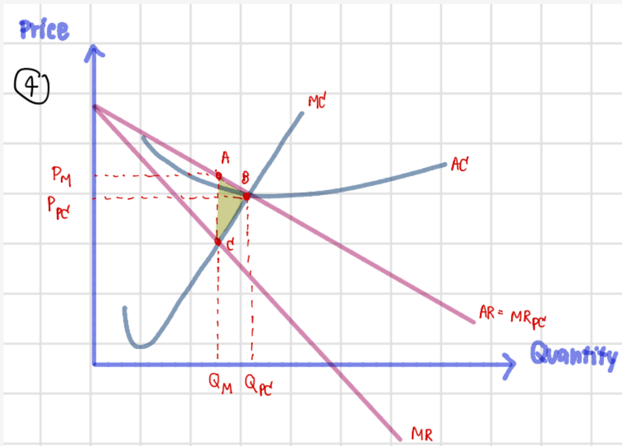
3. Natural monopoly

: occurs when the long-run average cost falls continuously, when there are continually gains to be made from economies of scale as output increases. This may mean that there is only room in the market for one firm if all the economies of scale are to be gained

Diagram



4. Advantages and disadvantages of monopoly

Advantages	Disadvantages
1. Dynamic efficiency : Firm can make profit in both long run and short run : Firm has more budget to invest in R&D and innovation : Quality of goods and services can be improved 2. Firms can take advantages from Economies of scale 3. Natural monopoly : It reduces duplicate cost when goods and services are produced by only on firm eg. Electricity and water supplied.	1. Productive inefficient 2. Allocative inefficient as P>AC 3. No competition in the market : Firms have no incentive to improve quality and not response to customer want 4. It can cause deadweight loss into the market when comparing perfect competition 

5. Price discrimination

: under monopoly is often split into three types.

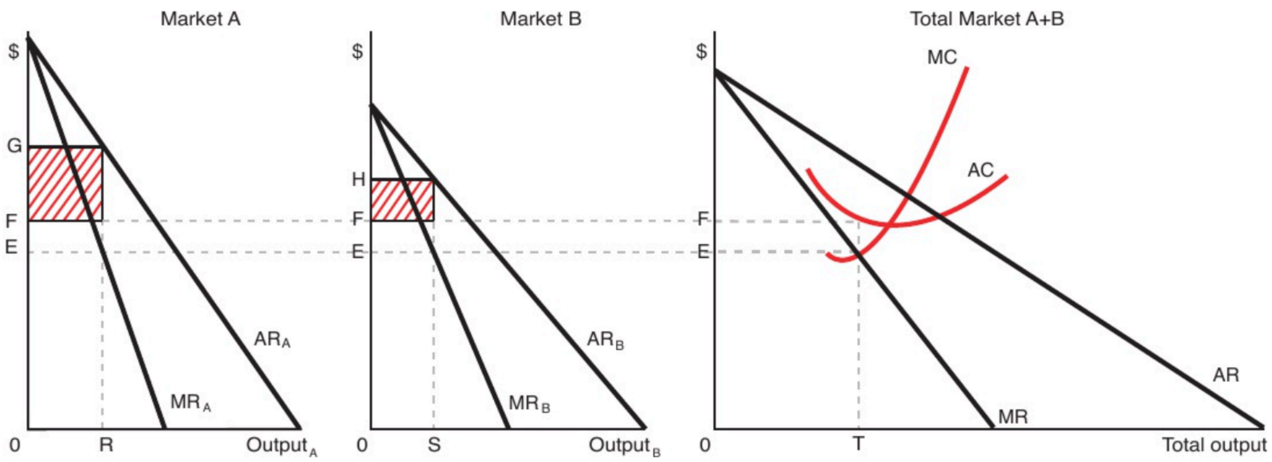
5.1 First degree price discrimination : occurs when a firm is able to charge each customer a different price when a firm is able to charge each customer a different price. That price is maximum price the customer will pay.

5.2 Second degree price discrimination : is when a monopolist charges customers according to how much they buy

5.3 Third degree price discrimination : This is when consumers are grouped into two or more independent markets. There are a number of different ways in which a monopolist may be able to discriminate

- Time
- Place
- Income etc

Price discrimination
By charging a different price in two markets, a monopolist is able to earn higher profits than it would if it charged the same price.



6. Monopsony

: A monopsony exists when there is a dominant buyer in the market

: There are very few pure monopolists but there can be a number of markets where on buyer dominates the market.

7. Cost and benefits of monopsony

Firm	Supplier	Consumer	Employee
Advantages - Buy cheaper cost of production, it can increase producer surplus - Higher profit, more budget to reinvest in innovation and technology **Disadvantages** - Firms might be investigated by competition authorities	**Advantages** - Supplier can sell in large market **Disadvantages** - Supplier is more likely to lose out from monopsony, price of goods and services will be lower - Some supplier might be squeezed out of business - Poor relationship with supplier and firm	**Advantages** - Lower cost of monopsony can pass on to consumer, consumer can buy at cheaper price - It has regulation to control monopsony power, to prevent a fall in supply of input **Disadvantages** - Restriction in supply, low quantity of product - Monopsony can create barrier to entry for new firms	**Advantages** - Cost of production will be lower and more budget to pay higher wage **Disadvantages** - Fewer or the same amount number of employee will be employed by the monopolist